

Report of the auditor-general to the Free State Legislature and the council on the Mohokare Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Mohokare Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Mohokare Local Municipality as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2018 (Act No. 1 of 2018) (Dora).

Basis for qualified opinion

Property, plant and equipment

3. The municipality did not recognise all items of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. Items of property, plant and equipment under the control of the municipality were not all included on the asset register and items held for rentals were incorrectly recognised as property, plant and equipment. Consequently, property, plant and equipment was understated by R5 018 211 and investment property was understated by R16 099 008. There was an impact on the surplus for the period and on the accumulated surplus. Additionally, the residual values and useful lives of property, plant and equipment were not reviewed at each reporting date in accordance with GRAP 17. Completed capital projects were in some instances not capitalised and accounted for as work-in-progress, assets were not unbundled to identify individual components with significant costs and work in progress as well as repairs and maintenance were not disclosed per class of assets in note 10. I was unable to determine the impact on the net carrying amount of plant and equipment as it was impracticable to do so.
4. I was unable to obtain sufficient appropriate audit evidence and explanations for material differences identified between the asset registers, general ledger, trial balance, statement of financial position and note 10 to the financial statements. In addition I was unable to obtain sufficient appropriate audit evidence for infrastructure assets as I was denied access to certain premises. Consequently, I was unable to determine whether any adjustments were required to property, plant and equipment stated at R587 037 984 in the financial statements.

Payables from exchange transactions

5. The municipality did not have adequate systems to maintain records of accounts payable for goods and services received but not yet paid. This resulted in payables from exchange transactions being understated by R14 232 623 (2018: R2 765 947). In addition, I was unable to obtain sufficient appropriate audit evidence and explanations for material differences between underlying schedules for payables and amounts for payables disclosed in the financial statements. In 2018, I was unable to obtain supporting schedules for unallocated deposits, and staff salaries and third parties. I could not confirm payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to payables from exchange transaction stated at R129 429 968 (2018: R91 948 956) in the financial statements.

Government grants and subsidies

6. The municipality did not correctly account for conditional grant revenue, as actual conditional grant expenditure differed from the revenue recognised in the conditional grants revenue, which resulted in government grants and subsidies being overstated and unspent conditional grants being understated by R5 422 406 respectively. In addition, I was unable to obtain sufficient appropriate audit evidence in respect of the spending on the DoRA schedule 6B, municipal systems improvement grant, to the amount of R1 700 000 (2018: R2 179 000), as the municipality did not have adequate systems and I could not confirm the spending by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to government grants and subsidies stated at R119 524 207 in the financial statements.

Commitments

7. The municipality did not have adequate systems of internal control in place to ensure that all commitments were recorded in the commitment register at the correct commitment values. The municipality omitted certain commitments from the commitment register, which resulted in commitments being understated by R1 974 901. In addition, I was unable to obtain sufficient appropriate audit evidence to confirm that certain commitments amounting to R17 440 186 were disclosed in the commitment register at correct values due to the municipality not providing evidence in support of the contract values. I was unable to confirm commitments by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to commitments stated at R114 183 461 as per note 38 to the financial statements.

Employee related costs

8. The municipality, in the determination of overtime payments, made calculation errors and also made payouts to temporary workers who were not entitled to overtime remuneration. In addition, during 2018 the municipality made medical aid contribution in excess of the approved limits. This was due to the municipality not having adequate systems of internal control to ensure the implementation of all stipulations of the overtime and other employee related policies. As a result, employee costs as per note 27 was overstated by R4 164 548 (2018: R1 422 836). Additionally, there was an impact on the surplus for the period and on the accumulated surplus.

Service charges

9. The municipality did not account for revenue from service charges in accordance with GRAP 9, *Revenue from exchange transactions*. Adequate systems to account for service charges were not in place, as incorrect meter readings and tariffs were used for billing, estimates billed in the current year were reversed without a corresponding billing on the system, and accounts were not always billed monthly. This resulted in service charges and receivables from exchange transactions both being overstated by R5 580 575. Additionally, there was an impact on the surplus for the period, VAT receivables and on the accumulated surplus.
10. During 2018, the municipality did not have adequate systems to account for service charges, as accounts were not always billed monthly, the reasonability of estimates used when readings were not taken could not be confirmed, and certain journals were passed in incorrect accounting periods. This resulted in both service charges and receivables from exchange transactions being overstated by R8 257 850. In addition, I was unable to obtain sufficient appropriate audit evidence for journals processed on the billing system. I could not confirm service charges by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to service charges stated at R64 709 887 in the financial statements.

Receivables from exchange transactions

11. The municipality did not correctly classify consumer debtors between the different customer classes, as there was no supplementary valuation roll prepared and reconciled to the billing system. I was unable to determine the impact on the receivables from exchange transactions as disclosed in note 4 to the financial statements or the related debt impairment, as it was impracticable to do so. In addition, I was unable to obtain sufficient appropriate audit evidence and explanations for the basis used in management's assessment of debt impairment, the restatement made to rectify previous year misstatements, as well as material differences identified between the sub-ledger, general ledger, trial balance, statement of financial position and note 4 to the financial statements. I was unable to confirm the net carrying amount of receivables from exchange transactions and the impairment by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the receivables from exchange transactions stated at R9 350 587 (2018: R2 973 306) as disclosed in note 4 to the financial statements.

Debt impairment

12. The municipality, in the determination of debt impairment for the year, omitted to exclude value-added tax (VAT) from the amount expensed. Consequently, debt impairment as per note 32 was overstated by R4 859 864 and the VAT receivable as per note 6 was understated by R4 859 864. Additionally, there was an impact on the surplus for the period and on the accumulated surplus.

Investment properties

13. I was unable to obtain sufficient appropriate audit evidence for investment properties, as the municipality did not have adequate systems to record investment properties and evaluate whether they have control over the investment properties or not. This was because in some instances, the municipality did not have legal ownership of the assets, and in some others, the properties were occupied by third parties and used solely by those third parties. I was unable to

confirm the investment properties by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the investment properties stated at R57 163 000 (2018: R57 163 000) in note 9 to the financial statements.

Fines, penalties and forfeits

14. I was unable to obtain sufficient appropriate audit evidence for non-exchange revenue arising from traffic fines, as the municipality did not establish internal controls over external system-generated reports for the issuing, withdrawal and reduction of traffic fines before their initial entry in the municipality's financial records. I was unable to confirm the fines by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to fines, penalties and forfeits stated at R36 874 000 (2018: R48 400 510), as disclosed in the financial statements. In addition, there was a resultant impact on receivables from non-exchange transactions.

Receivables from non-exchange transactions

15. I was unable to obtain sufficient appropriate audit evidence for the basis used in management's assessment of the impairment of receivables from non-exchange transactions, as the municipality could not provide evidence for the basis used. I was unable to confirm the debt impairment by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the receivables from non-exchange transactions stated at R17 587 670 (2018: R17 471 937) as disclosed in note 5 to the financial statements.

Irregular expenditure

16. The municipality did not disclose all instances of irregular expenditure incurred in the notes to financial statements, as required by section 125(2)(d) of the MFMA. The municipality made payments in contravention of the supply chain management (SCM) requirements, which were not disclosed as irregular expenditure. In addition, the municipality utilised DoRA grant allocations for purposes other than those stipulated in the schedules and the grant frameworks. I was unable to determine the full extent of the understatement of irregular expenditure stated at R35 810 923 (2018: R29 757 380) in note 48 to the financial statements, as it was impracticable to do so.

Contracted services

17. The municipality did not account for contracted services in accordance with GRAP 1, *Presentation of financial statements*. The municipality did not have adequate systems to maintain records of the contracted services, as some of the transactions were recorded in the incorrect accounting period. Consequently, contracted services were understated by R3 488 273. In addition, I was unable to obtain sufficient appropriate audit evidence for some other transactions that services were actually received. I could not confirm contracted services by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to contracted services stated at R10 528 086 in the financial statements.

General expenses

18. During 2018, I was unable to obtain sufficient appropriate audit evidence for general expenses, as the municipality could not provide evidence that goods and services were actually received

and utilised for official purposes. I was unable to confirm the general expenditure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to general expenditure stated at R30 189 793 as per note 35 to the financial statements. My opinion on the current year's financial statements was also modified because of the possible effect of these matters on the comparability of the general expenses for the current period.

Unauthorised expenditure

19. During 2018, the municipality did not disclose all instances of unauthorised expenditure incurred in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. The municipality did not include unauthorised expenditure relating to capital spending in the amount calculated for the year. In addition, underspending on certain of the votes was set off against overspending on other votes in the approved budget. I was unable to determine the full extent of the misstatement of unauthorised expenditure stated at R255 890 729 in note 46 to the financial statements, as it was impracticable to do so.

Aggregation/ accumulation of immaterial uncorrected misstatements

Total current assets

20. In addition to the individually material uncorrected misstatements on receivables from exchange transactions and receivables from non-exchange transactions as per paragraphs 11 and 15 above, current assets for 2018 was materially misstated by R3 558 453 due to the cumulative effect of individually immaterial uncorrected misstatements in the following items:
21. Total current assets was materially misstated by R1 442 549 due to the cumulative effect of individually immaterial uncorrected misstatements in the following item:
- VAT receivable stated at R25 401 693 was overstated by R1 442 549
22. In addition, I was unable to obtain sufficient appropriate audit evidence and to confirm the following item by alternative means:
- Cash and cash equivalents stated at R4 578 406 as included in the disclosed balance in note 7 to the financial statements

Consequently, I was unable to determine whether any further adjustment was necessary to total current assets.

Context for the opinion

23. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
24. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes) as well as the ethical requirements that are relevant

to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.

25. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material uncertainty relating to going concern

26. I draw attention to the matter below. My opinion is not modified in respect of this matter.

27. Note 44 to the financial statements indicates that as at 30 June 2019, the municipality's current liabilities exceeded its current assets by R92 632 469. The municipality has been deducting pension, medical aid and provident fund contributions from employees' salaries but has not been able to pay over these amounts deducted to the relevant third parties as disclosed in note 14. The municipality also has long-outstanding creditors and has not been able to comply with section 65 of the MFMA, which requires creditors to be paid within 30 days. These events or conditions, along with other matters as set forth in note 44, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

28. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

29. As disclosed in notes 41 and 42 to the financial statements, the corresponding figures for 30 June 2018 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2019.

Material losses

30. As disclosed in note 49 to the financial statements, material electricity losses of R5 115 979 (2018: R6 702 185) were incurred. This was mainly due to tampering with meters, faulty meters, and illegal electricity connections.

Unauthorised expenditure

31. As disclosed in note 46 to the financial statements, unauthorised expenditure of R56 579 310 was incurred, due to overspending a main division within the vote.

Fruitless and wasteful expenditure

32. As disclosed in note 47 to the financial statements, fruitless and wasteful expenditure of R9 321 508 (2018: R11 606 551) was incurred, mainly due to interest on overdue accounts as well as fines and penalties on late payments.

Other matters

33. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited disclosure notes

34. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. The disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

Unaudited supplementary information

35. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Capital projects

36. As disclosed in note 10 of the financial statements, several of the municipality's capital projects are taking significantly longer to be completed as a result of the termination of services of consulting engineers and contractors due to poor project management and workmanship. The municipality also had to suspend some capital projects due to cash-flow challenges resulting from funding re-allocation, which saw a reduction in the water services infrastructure grant funding previously allocated to the municipality.

Responsibilities of the accounting officer for the financial statements

37. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
38. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

39. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
40. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

41. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected key performance areas (KPAs) presented in the annual performance report. I was engaged to perform procedures to raise findings but not to gather evidence to express assurance.
42. I was engaged to evaluate the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected key performance areas (KPA) presented in the annual performance report of the municipality for the year ended 30 June 2019:

KPA	Pages in the annual performance report
KPA 1: basic service delivery and infrastructure development	x – x

43. The material findings in respect of the usefulness and reliability of the selected KPA are as follows:

KPA 1: basic service delivery and infrastructure development

All indicators

44. A comparison between the planned and actual performance for the year under review and the previous year was not included in the annual performance report for all indicators of the KPA.

Various indicators

45. The reported achievements for the following indicators and targets were not consistent with the planned indicators and targets approved in the service delivery and budget implementation plan:

Key performance indicator	Actual target	Reported achievement
To execute work amounting to R 17 708 000 on MIG by 30 June 2019	R 17 708 000 to be certified as work done by 30 June 2019	Not achieved
Upgrading of 1.7 km access roads in Roleathunya(Phase 1)	Practical completion of the project by 30 June 2019	Not achieved, actual achievement 86%
Upgrading of 0,6 km Zama access road in Matlakeng	Practical completion of the project by 30 June	Not achieved, actual achievement 86%

Zastron/ Matlakeng: Upgrading of the outfall sewerline and refurbishment of sewer pump stations and Refengkhoto sewer reticulation	44% physical progress on site by June	Not achieved, project was only registered on the 14th of June 2019
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46. Performance indicators were not well defined and targets were not specific for the indicators and targets below:

Key performance indicator	Target
Upgrading of 0,6 km Zama access road in Matlakeng	Practical completion of the project by 30 June
Upgrading of the water treatment works in Zastron	72% physical progress on site by 30 June 2019
Upgrading of the 1,7 km access roads in Roleathunya	Practical completion of the project by 30 June 2019

47. I was unable to obtain sufficient and appropriate evidence for the reported achievements in the annual performance report of the indicators listed below. This was due to a lack of technical indicator descriptions, proper performance management systems and processes with formal standard operating procedures that predetermined how the achievement would be measured, monitored and reported. I was unable to confirm that the reported achievements of these indicators were reliable by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements.

Indicator description	Reported achievement
Upgrading of the 1,7 km access roads in Roleathunya	Not achieved 65%
Upgrading of the 0,6 km Zama road in Matlakeng	Not achieved Actual achievement 86%
Upgrading of the Zastron water treatment works	Not achieved Actual achievement 45%

48. I was unable to obtain sufficient appropriate audit evidence for the reported achievements in the annual performance report of the indicators listed below. This was due to inconsistencies identified between the reported achievement and the various sources of information provided for audit purposes. I was unable to confirm that the reported achievements of these indicators

were reliable by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements.

Indicator description	Reported achievement	Achievement per supporting documentation
Installation of onsite sanitation units in Refengkhoto by 30 June 2019	Not achieved 300 units installed	Invoices: 320 Progress reports: 372 Completion certificates: 100
To execute work amounting to R 17 708 000 on MIG by 30 June 2019	Not achieved Actual achievement R0	Expenditure per commitments register: R 11 741 850,01 Expenditure per MIG register: R 11 845 599,25
To execute work amounting to R 17 000 000 on WSIG by 30 June 2019	Not achieved Actual achievement: R 13 241 639,33	Expenditure per commitments register: R 22 379 465,91 Expenditure per WSIG register: R 22 799 465,90
To execute work amounting to R 32 000 000 on RBIG by 30 June 2019	Not achieved Actual achievement : R 17 800 208	Expenditure per commitments register: R 14 021 045 Expenditure per RBIG register: R 17 800 208
10793 of formal households with water in MLM daily	Achieved 1536 ML of purified water for 2018/19	Total ML billed for 2018/19: 1779 Total ML reported for 2018/19: 1536 Total ML from water treatment plants for 2018/19: 2173

Other matters

49. I draw attention to the matters below.

Achievement of planned targets

50. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year and explanations provided for the under- or over achievement of a significant number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 44 to 48 of this report.

Adjustment of material misstatements

51. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 1 - basic service delivery and infrastructure development. As management subsequently corrected only

some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

52. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

53. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements

54. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1). Material misstatements of current assets, non-current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

55. The 2017-18 annual report was not made public after being tabled in the council, as required by section 127(5) (a) of the MFMA.

56. The local community was not invited to submit representations in connection with the 2017-2018 annual report, as required by section 127(5)(a) of the MFMA.

57. The council failed to adopt an oversight report containing the council's comments on the annual report within the prescribed timelines, as required by section 129(1) of the MFMA.

Asset management

58. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

Conditional grants

59. The municipal infrastructure grant was not spent in accordance with the applicable grant framework, in contravention of section 17(1) of DoRA.

60. The regional bulk infrastructure grant was not spent on its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of Dora.

Consequence management

61. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.

62. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

63. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Expenditure management

64. Money owed by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.
65. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by the utilisation of Dora grant allocations for purposes other than those stipulated in the schedules and the grant frameworks, as well as non-compliance with SCM processes in the procurement of goods and services.
66. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R9 321 508, as disclosed in note 47 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest on overdue accounts.
67. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R56 579 310, as disclosed in note 46 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed unauthorised expenditure was caused by overspending on votes in the prior financial years and the current year.

Revenue management

68. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
69. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.
70. Accounts for municipal tax and charges for municipal services were not prepared on a monthly basis, as required by section 64(2)(c) of the MFMA.

Strategic planning and performance management

71. A mid-year performance assessment was not performed, as required by section 72(1)(a)(ii) of the MFMA.
72. The performance management system and related controls were inadequate as it did not describe how the performance measurement and reporting processes should be conducted and managed, as required by municipal planning and performance management regulation 7(1).

Human resource management

73. Appropriate systems and procedures to monitor, measure and evaluate the performance of staff were not developed and adopted, as required by section 67(1) (d) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000).

Procurement and contract management

74. Some of the goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.
75. Sufficient appropriate audit evidence could not be obtained that contracts were awarded only to bidders who submitted a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.
76. Sufficient appropriate audit evidence could not be obtained that quotations were only accepted from bidders whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.
77. Some of the goods and services with a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).
78. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding, as required by SCM regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations.
79. Sufficient appropriate audit evidence could not be obtained that contracts awarded through a competitive bidding process were adjudicated by a bid adjudication committee.
80. Sufficient appropriate audit evidence could not be obtained that bid specifications were unbiased and allowed all potential suppliers to offer their goods or services, as required by SCM regulation 27(2)(a).
81. Competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2).
82. Sufficient appropriate audit evidence could not be obtained that contracts were only awarded to providers whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.
83. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act No. 5 of 2000) (PPPFA). Similar non-compliance was also reported in the prior year.
84. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders that scored the highest points in the evaluation process, as required by section 2(1)(f) of PPPFA and the Preferential Procurement Regulations.
85. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the PPPFA and its regulations.

86. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding and quotations, as required by the Preferential Procurement Regulations.
87. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders based on pre-qualification criteria that were stipulated in the original invitation for bidding and quotations, in contravention of preferential procurement regulation 4(1) and 4(2) of 2017.
88. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5. Similar non-compliance was also reported in the prior year.
89. Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year. This limitation was identified in the procurement processes for the construction of a 1,7 km paved road and related storm-water.
90. Sufficient appropriate audit evidence could not be obtained that contract performance and monitoring measures and methods were sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA. Similar non-compliance was also reported in the prior year.

Other information

91. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and the selected KPA presented in the annual performance report that has been specifically reported on in this auditor's report.
92. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
93. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected KPA presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
94. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, and if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

95. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective

was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

96. Management did not in all instances effectively review and monitor the municipality's compliance with laws and regulations, due to their slow response in addressing the drivers of the compliance findings identified in the prior year. As a result, material instances of non-compliance that could have been prevented were repeated by the municipality.
97. The risk management unit did not closely monitor management's responses to the municipality's strategic and operational risks. The effectiveness of this unit was insufficient.
98. The internal audit unit was not fully functional. A risk-based internal audit plan was not compiled. There was furthermore no sufficient progress in addressing the external quality assurance assessment reviews performed. This can be attributed to, amongst others, to the vacant chief audit executive position.
99. Management was slow to respond to prior year recommendations of the external auditors, again resulting in material misstatements in the financial statements and annual performance report that could have been prevented.
100. Management overly relied on the work performed by consultants in the preparation of the annual financial statements. Information prepared by consultants was not thoroughly reviewed by management to assess the accuracy and completeness thereof for financial reporting purposes.

Auditor-General

Bloemfontein

30 November 2019



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected KPAs and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause the municipality to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.